



## BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

**AB 5864**  
**April 27, 2021**  
**Planning Session**

### AGENDA BILL INFORMATION

<b>TITLE:</b>	AB 5864: Financial Management Policies Framework and Kickoff Discussion	<input checked="" type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Receive staff update on the Ad Hoc Finance Committee's Approach to draft new Financial Management Policies for City Council's review later this year.	<input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>DEPARTMENT:</b>	Finance	
<b>STAFF:</b>	Matthew Mornick, Finance Director	
<b>COUNCIL LIAISON:</b>	n/a	
<b>EXHIBITS:</b>	1. Current Budget Policies & Proposed Financial Management Policy Outline 2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.	
<b>CITY COUNCIL PRIORITY:</b>		

### SUMMARY

On March 16 (see [AB 5829](#)), the City Council created an Ad Hoc Finance Committee to work with staff to develop a new Financial Management Policy document. At a minimum, Committee members will meet monthly with an aim to present the full City Council a draft of the financial management policy document in September, with City Council adoption anticipated in October 2021. The Committee will be disbanded thereafter.

#### FINANCIAL MANAGEMENT POLICIES

A critical factor that drives decisions in local government is a City's fiscal health. Residents expect their cities to deliver essential services such as public safety, public infrastructure, and utility services efficiently and effectively. This responsibility has been made even more clear during the ongoing COVID-19 Pandemic. To meet this expectation in times of normalcy and community duress, Cities must make strategic decisions, such as how to respond to emergencies, invest in infrastructure, and reserve funds for long-term liabilities that assure the community's ongoing financial wellbeing.

Effective financial management policies help guide these kinds of decisions. They empower staff to track a City's fiscal health and help elected officials make policy decisions now and in the future. They provide continuity spanning multiple biennial budgets as staff and elected officials turn over by making clear what actions are and are not acceptable, identifying lines of responsibility, and providing metrics to measure the City's fiscal health. They also prevent the need to re-invent responses to recurring issues.

Some cities adopt one comprehensive policy that addresses many different aspects of financial management, and results in a standalone document. Others adopt financial policies within the budget document itself. The

budget policies from the 2019-2020 biennial budget ([see Section H](#)) are the closest set of guidelines akin to financial management strategies for the City of Mercer Island. Woven among these policies, however, is background information and discussion about issues relevant mainly in the fall of 2018. Once distilled and taken collectively, these policies are an adequate starting point, but do not fully speak to the fiscal management issues facing Mercer Island today.

## **COMMITTEE MECHANICS**

The Ad Hoc Committee first met on March 26. Staff and Councilmembers agreed upon a process and framework to work together and develop a set of new financial management policies. The new policy document is outlined in Exhibit 1 and compared with the current budget policies. In general, the Committee's process involves the five steps below:

1. Define the purpose for each policy.
2. Draft policies that reflect legal requirements and community priorities.
3. The Ad Hoc Committee will work with staff to review and edit the draft policies.
4. The Ad Hoc Committee will provide a policy recommendation to the full City Council for consideration and adoption.
5. Once approved by the City Council, staff will implement and communicate new policy directives.

Committee meetings are best described as a two-touch approach. First, staff introduces fiscal topics and provides the committee background on current internal process compared to industry adopted best practices for medium-sized cities. Committee members pose questions for staff and clarify areas of specific interest. Direction from the Committee informs a draft policy write-up on the relevant policy topic. The second touch involves Committee review of the draft policy; providing questions and revisions that lead to a final policy write-up.

Each meeting is divided into time to introduce new topics via a first touch, and time to come to consensus on a policy position for topics previously discussed via a second touch. At the Committee meeting March 26, staff introduced background information for four of the eleven sections of the new draft Financial Management Policies outline: Background & Purpose, Fiscal Sustainability Philosophy, Investments, and Debt Management. The Committee is scheduled to meet again on April 22.

Completion of this work outlines a clear vision for how Mercer Island will manage its financial resources to provide the best value to the community, increasing accountability, and minimizing confusion. Financial management policies also support good bond ratings, reduce the cost of borrowing, and promote long-term and strategic thinking. Furthermore, they will provide a framework for the State's Auditor's Office to assess compliance during regular audits, for credit ratings agencies to determine the City's fiscal stability, and for other financial professionals as a basis for providing services.

## **RECOMMENDATION**

Receive report and provide general feedback to staff and Committee members.